

**MOUNTAINLAND HEAD START, INC.**  
**87-0342445**

**FINANCIAL STATEMENTS  
AND REPORTS IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS  
AND OMB CIRCULAR A-133**

**Years Ended April 30, 2005 and 2004**

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Mountainland Head Start, Inc.

We have audited the accompanying statements of financial position of Mountainland Head Start, Inc. (a nonprofit organization) as of April 30, 2005 and 2004, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Mountainland Head Start, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mountainland Head Start, Inc. as of April 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2005, on our consideration of Mountainland Head Start, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Mountainland Head Start, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of Mountainland Head Start, Inc. The schedule of revenues, expenses, and changes in fund balance-budget and actual is also presented for purposes of additional analysis, and is not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Squire & Company, PC*

June 28, 2005

**MOUNTAINLAND HEAD START, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

April 30, 2005 and 2004

	2005	2004
<b>Assets:</b>		
Cash	\$ 46,221	\$ 58,730
Accounts receivable	950,431	831,042
Inventories	475	475
Prepaid expenses	31,117	5,572
Fixed assets, net of accumulated depreciation	<u>2,709,251</u>	<u>2,718,523</u>
Total assets	<u>\$ 3,737,495</u>	<u>\$ 3,614,342</u>
<b>Liabilities:</b>		
Cash overdraft	\$ 86,245	\$ 86,028
Accounts payable	71,231	87,218
Accrued payroll and related liabilities	860,769	722,497
Capital lease payable	<u>53,605</u>	<u>69,600</u>
Total liabilities	1,071,850	965,343
<b>Unrestricted Net Assets:</b>		
Undesignated	10,000	77
Designated for fixed assets, net of related liabilities	<u>2,655,645</u>	<u>2,648,922</u>
Total unrestricted net assets	<u>2,665,645</u>	<u>2,648,999</u>
Total liabilities and net assets	<u>\$ 3,737,495</u>	<u>\$ 3,614,342</u>

The accompanying notes are an integral part of these financial statements.

**MOUNTAINLAND HEAD START, INC.****STATEMENTS OF ACTIVITIES**

Years Ended April 30, 2005 and 2004

	2005	2004
<b>Unrestricted Net Assets:</b>		
Revenue and support:		
Federal financial awards	\$ 5,410,030	\$ 5,361,712
Non-cash contributions	953,895	875,165
Cash contributions	12,083	1,711
Other revenue	2,588	366
Interest income	250	250
Total unrestricted revenue and support	6,378,846	6,239,204
Expenses:		
Program services:		
Head Start grant	5,507,593	5,234,889
Head Start training grant	58,459	58,459
Child care food program	258,720	244,892
Supporting services:		
Management and general	537,428	546,404
Total expenses	6,362,200	6,084,644
<b>Change in Net Assets</b>	16,646	154,560
<b>Net Assets at May 1</b>	2,648,999	2,494,439
<b>Net Assets at April 30</b>	<u>\$ 2,665,645</u>	<u>\$ 2,648,999</u>

The accompanying notes are an integral part of these financial statements.

**MOUNTAINLAND HEAD START, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended April 30, 2005

	Program Services			Supporting Services		Totals
	Head Start Grant	Head Start Training Grant	Child Care Food Program	Management and General		
Personnel	\$ 3,937,688	\$ -	\$ 87,347	\$ 374,995	\$	4,400,030
Facilities and occupancy	64,183	-	-	40,493		104,676
Food purchases	50,137	-	131,952	-		182,089
Insurance	40,642	-	-	2,724		43,366
Training and literacy	7,738	58,459	-	6,398		72,595
Interest	3,429	-	-	-		3,429
Parent programs	16,975	-	-	-		16,975
Professional services	44,889	-	-	14,116		59,005
Supplies and equipment	158	-	39,421	32,566		72,145
Travel	31,013	-	-	12,522		43,535
Depreciation	285,328	-	-	-		285,328
Transportation	125,132	-	-	-		125,132
	<u>4,607,312</u>	<u>58,459</u>	<u>258,720</u>	<u>483,814</u>		<u>5,408,305</u>
Contributed facilities and professional services	900,281	-	-	53,614		953,895
Total expenses	<u>\$ 5,507,593</u>	<u>\$ 58,459</u>	<u>\$ 258,720</u>	<u>\$ 537,428</u>		<u>\$ 6,362,200</u>

The accompanying notes are an integral part of these financial statements.

**MOUNTAINLAND HEAD START, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended April 30, 2004

	Program Services			Supporting Services		Totals
	Head Start Grant	Head Start Training Grant	Child Care Food Program	Management and General		
Personnel	\$ 3,559,020	\$ -	\$ 93,275	\$ 334,062	\$	3,986,357
Facilities and occupancy	58,803	-	-	53,233		112,036
Food purchases	48,597	-	128,637	-		177,234
Insurance	96,929	-	-	3,833		100,762
Training and literacy	644	58,459	-	17,073		76,176
Parent programs	16,525	-	-	-		16,525
Professional services	43,779	-	-	23,124		66,903
Supplies and equipment	162,359	-	22,980	46,538		231,877
Travel	32,799	-	-	14,057		46,856
Depreciation	280,406	-	-	-		280,406
Transportation	114,347	-	-	-		114,347
	<u>4,414,208</u>	<u>58,459</u>	<u>244,892</u>	<u>491,920</u>		<u>5,209,479</u>
Contributed facilities and professional services	820,681	-	-	54,484		875,165
Total expenses	<u>\$ 5,234,889</u>	<u>\$ 58,459</u>	<u>\$ 244,892</u>	<u>\$ 546,404</u>	\$	<u>\$ 6,084,644</u>

The accompanying notes are an integral part of these financial statements.

**MOUNTAINLAND HEAD START, INC.**  
**STATEMENTS OF CASH FLOWS**  
Years Ended April 30, 2005 and 2004

	2005	2004
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 16,646	\$ 154,560
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	285,328	280,406
Loss on disposal of fixed assets	113,082	30,477
(Increase) decrease in operating assets:		
Accounts receivable	(119,389)	169,405
Prepaid expenses	(25,545)	(5,572)
Increase (decrease) in operating liabilities:		
Cash overdraft	217	(5,767)
Accounts payable	(15,987)	(25,117)
Accrued payroll and related liabilities	138,272	(109,963)
Net cash provided by operating activities	392,624	488,429
<b>Cash Flows from Investing Activities:</b>		
Proceeds from the sale of fixed assets	1,100	2,200
Purchases of fixed assets	(390,238)	(468,100)
Net cash consumed by investing activities	(389,138)	(465,900)
<b>Cash Flows from Financing Activities:</b>		
Capital lease payments	(15,995)	-
<b>Net Change in Cash</b>	<b>(12,509)</b>	<b>22,529</b>
<b>Cash at May 1</b>	<b>58,730</b>	<b>36,201</b>
<b>Cash at April 30</b>	<b>\$ 46,221</b>	<b>\$ 58,730</b>

**Additional Information:**

The Organization had no noncash investing or financing activities during the year ended April 30, 2005. The Organization financed the purchase of two buses valued at \$85,600 by paying \$16,000 in cash and entering into a capital lease for the remaining balance of \$69,600 during the year ended April 30, 2004.

The Organization paid interest of \$3,429 and \$0 for the years ended April 30, 2005 and 2004, respectively. The Organization paid no income taxes for those years.

The accompanying notes are an integral part of these financial statements.



## **MOUNTAINLAND HEAD START, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **Note 1. Summary of Significant Accounting Policies**

The financial statements of Mountainland Head Start, Inc. have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Organization - Mountainland Head Start, Inc. (the Organization) is a private, nonprofit organization formed September 15, 1978, for the purpose of administering the Head Start program and related activities in the Utah County and surrounding area. The Organization is exempt from income taxes under Section 501(a) of the Internal Revenue Code and is classified as a Section 501(c)(3) public charity.

The objectives of the Head Start Program are to provide services to economically disadvantaged preschool children and their families and to involve parents in activities with their children so that the children will attain overall social competence. Parents also participate in various decision-making processes related to operation of the Head Start program.

The Organization has no general membership other than a Board of Directors consisting of individuals from the area who have an interest in the programs administered by the Organization. The Board establishes policies and procedures under the direction of the U.S. Department of Health and Human Services and manages the program with a Policy Council made up of parents elected by other parents of children in the program.

Inventories - Inventories at April 30, 2005, consist of food supplies valued at cost or, if donated, at fair value at time of donation.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and support and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of costs - Direct costs are charged to the appropriate program. Indirect (management and general) costs are charged to the Head Start Grant; an estimate of indirect costs has been reclassified from the Head Start Grant to the management and general expense category for reporting purposes.

Accounts receivable - Accounts receivable consist of Head Start and child care food program funds and sales tax reimbursements that have been earned but not yet received at year-end; the amounts were subsequently received by the Organization.

Compensated absences - Employees meeting certain service requirements receive vacation and sick leave benefits. The Organization records as an obligation the amount of unpaid compensated absences up to the amount of funding available in the current period; the Organization is not liable for any unfunded, unpaid compensated absences.

**MOUNTAINLAND HEAD START, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 1. Summary of Significant Accounting Policies (Continued)**

Fixed assets and related depreciation - Modular classrooms and equipment are stated at cost. Donated equipment is stated at fair value at date of donation. Fixed assets valued at \$5,000 or more are capitalized. Depreciation is provided using the straight-line method over the estimated useful lives as follows:

Modular classrooms and improvements	10 - 30 years
Transportation equipment	10 years
Classroom and office equipment	5 - 20 years

Financial statement presentation - The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Net assets - The Organization recognizes revenues when reimbursable services are rendered. The source of funds received by the Organization is primarily from government contracts and noncash contributions. Net assets can be used to further the purposes of the contracts. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Restricted contributions and grants that are received and spent in the same period are recorded as unrestricted support.

The largest portion of the Organization's net assets has been designated and reflects the Organization's investment in fixed assets (see Note 4), less any related outstanding debt used to acquire those assets. The Organization uses these fixed assets to administer the Head Start program; these assets are not available for future spending. Although the Organization's investment in fixed assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided by other sources, since the fixed assets themselves cannot be used to liquidate these liabilities.

**Note 2. Cash**

The Organization's carrying amount of bank deposits at April 30, 2005, is \$46,221 and an overdraft of \$86,246 and the bank balances total \$168,303, of which \$146,021 is covered by federal depository insurance.

# **MOUNTAINLAND HEAD START, INC.** **NOTES TO FINANCIAL STATEMENTS**

## **Note 3. Matching Contributions**

Under the grant agreement with the U.S. Department of Health and Human Services (Head Start) for the year ended April 30, 2005, the Organization is required to match twenty percent of federal expenditures with nonfederal contributions.

These matching funds are non-cash contributions from the following sources:

Volunteer parent hours (817 families)	\$ 383,316
Other volunteers	<u>42,095</u>
Total volunteers	425,411
Facilities and occupancy	438,695
Professional services	331,587
Supplies and equipment	<u>152,713</u>
Total matching contributions	1,348,406
Total amount required per grant	<u>1,315,281</u>
Excess of contributions over amount required	<u>\$ 33,125</u>

Donated materials, professional services, and facilities are recorded at their fair value and are included as revenue and expense of \$953,895 for the year ended April 30, 2005. The value of volunteer parent hours is not recorded on the statements of activities.

## **Note 4. Modular Classrooms and Equipment**

All modular classrooms and equipment have been acquired using grant monies and are stated at cost. The Organization is required to maintain property records of all property acquired through the use of federal grant monies. For such property, any money received at the time of the asset's disposal must be retained in the program or returned to the federal government. The following schedule is a reconciliation of the modular classrooms and equipment managed by the Organization as of April 30, 2005:

	Balance at 5/1/2004	Additions	Deletions	Balance at 4/30/2005
Modular classrooms and improvements	\$ 2,643,271	\$ 240,161	\$ (165,370)	\$ 2,718,062
Transportation equipment	1,210,762	59,529	(78,278)	1,192,013
Classroom and office equipment	<u>448,236</u>	<u>90,548</u>	<u>(7,090)</u>	<u>531,694</u>
Total	4,302,269	390,238	(250,738)	4,441,769
Accumulated depreciation	<u>(1,583,746)</u>	<u>(285,328)</u>	<u>136,556</u>	<u>(1,732,518)</u>
Net capital assets	<u>\$ 2,718,523</u>	<u>\$ 104,910</u>	<u>\$ (114,182)</u>	<u>\$ 2,709,251</u>

**MOUNTAINLAND HEAD START, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

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**Note 5. Tax Deferred Annuity Plan**

The Organization has a tax deferred annuity plan that is available to all part-time and full-time employees. Full-time employees electing to receive this benefit must contribute at least 50 percent of the Organization's contribution to the plan. The Organization makes no contributions on behalf of part-time employees. There were 65 participants in the plan during the year ended April 30, 2005. The Organization's contributions for the years ended April 30, 2005 and 2004, were \$116,348 and \$141,725, respectively; employee contributions totaled \$99,745 and \$95,566, respectively.

**Note 6. Capital Lease Obligation**

During the year ended April 30, 2004, the Organization acquired two buses under a capital lease obligation. The economic substance of the lease is that the Organization is financing the acquisition of the buses through the lease and, accordingly, the buses are recorded in the Organization's assets at cost and the present value of the net minimum lease payments is recorded in the Organization's liabilities. The lease is secured by the buses, bears interest at 5.5 percent, requires monthly principal and interest payments of \$1,619, and matures in April 2008.

Future minimum lease payments for capital leases and the present value of capital lease obligations as of April 30, 2005, are as follows:

	Years Ending April 30,	
	2006	\$ 19,424
	2007	19,424
	2008	<u>19,423</u>
Minimum lease payments		58,271
Amount representing interest		<u>(4,666)</u>
Present value of net minimum lease payments		53,605
Current portion		<u>(16,897)</u>
Long-term portion of capital lease obligation		<u><u>\$ 36,708</u></u>

**Note 7. Economic Dependency**

The Organization receives most of its revenue from federal agencies to administer the Head Start program. Federal funds represent 85 and 86 percent of total unrestricted revenue for the years ended April 30, 2005 and 2004, respectively. In addition, the Organization reported \$953,895 and \$875,165 of non-cash contributions directly attributable to the Organization's Head Start program during the years ended April 30, 2005 and 2004, respectively.

**SUPPLEMENTARY INFORMATION**

Year Ended April 30, 2005

**MOUNTAINLAND HEAD START, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended April 30, 2005

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant Period	Program Award Amount	Accrued (Deferred) Revenue at 5/1/04	Receipts	Expenditures	Accrued (Deferred) Revenue at 4/30/05
<b>U.S. Department of Agriculture:</b>							
Passed Through Utah State Office of Education:							
Child Care Food Program	10.558	05/03-04/04	\$ -	\$ 30,330	\$ 30,330	\$ -	\$ -
Child Care Food Program	10.558	05/04-04/05	-	-	226,788	258,720	31,932
<b>Total U.S. Department of Agriculture</b>				30,330	257,118	258,720	31,932
<b>U.S. Department of Education:</b>							
Passed Through Reading is Fundamental:							
Reading is Fundamental	84.000	06/04-05/05	3,714	3,714	3,714	3,714	3,714
<b>U.S. Department of Health and Human Services:</b>							
Direct:							
Head Start -- Training and Technology Assistance (PA 20)	93.600	05/04-04/05	58,459	-	58,459	58,459	-
Head Start -- Full Year Head Start, Part Day (PA 22)	93.600	05/03-04/04	5,136,143	793,178	793,178	-	-
Head Start -- Full Year Head Start, Part Day (PA 22)	93.600	05/04-04/05	5,202,663	-	4,284,159	5,194,663	910,504
<b>Total U.S. Department of Health and Human Services</b>				793,178	5,135,796	5,253,122	910,504
<b>Total federal awards</b>				\$ 823,508	\$ 5,392,914	\$ 5,515,556	\$ 942,436

See accompanying notes to Supplementary Information.

**MOUNTAINLAND HEAD START, INC.****SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL**

Year Ended April 30, 2005

	<b>Training and Technology Assistance (PA 20)</b>				
	<u>Actual</u>	<u>Adjustments to Budgetary Basis</u>	<u>Adjusted Actual</u>	<u>Budget</u>	<u>Variance</u>
<b>Revenues:</b>					
Grant revenue	\$ 58,459	\$ -	\$ 58,459	\$ 58,459	\$ -
<b>Expenses:</b>					
Training and literacy	58,459	-	58,459	58,459	-
Total expenses	58,459	-	58,459	58,459	-
<b>Excess of Revenues Over Expenses</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**MOUNTAINLAND HEAD START, INC.**  
**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

Year Ended April 30, 2005

	Full Year Head Start, Part Day (PA 22)				
	Actual	Adjustments to Budgetary Basis	Adjusted Actual	Budget	Variance
<b>Revenues:</b>					
Grant revenue:					
Head Start	\$ 5,089,137	\$ 105,526	\$ 5,194,663	\$ 5,194,663	\$ -
Child Care Food Program	258,720	-	258,720	258,720	-
Reading Is Fundamental	3,714	-	3,714	-	3,714
Non-cash contributions	953,895	394,511	1,348,406	1,315,281	33,125
Cash contributions	12,083	-	12,083	-	12,083
Other revenue	2,588	-	2,588	-	2,588
Interest income	250	-	250	250	-
<b>Total revenues</b>	<b>6,320,387</b>	<b>500,037</b>	<b>6,820,424</b>	<b>6,768,914</b>	<b>51,510</b>
<b>Grant Expenses:</b>					
Personnel	4,400,030	(62,425)	4,337,605	4,392,705	55,100
Facilities and occupancy	104,676	163,245	267,921	230,600	(37,321)
Food purchases	182,089	-	182,089	179,552	(2,537)
Insurance	43,366	11,117	54,483	92,227	37,744
Training and literacy	14,136	-	14,136	6,016	(8,120)
Interest	3,429	(3,429)	-	-	-
Parent programs	16,975	632	17,607	18,005	398
Professional services	59,005	8,270	67,275	87,815	20,540
Supplies and equipment	72,145	281,964	354,109	284,208	(69,901)
Travel	43,535	(1,795)	41,740	67,800	26,060
Depreciation	285,328	(285,328)	-	-	-
Transportation	125,132	-	125,132	94,455	(30,677)
Contributions	953,895	394,511	1,348,406	1,315,281	(33,125)
<b>Total expenses</b>	<b>6,303,741</b>	<b>506,762</b>	<b>6,810,503</b>	<b>6,768,664</b>	<b>(41,839)</b>
<b>Excess of Revenues Over Expenses</b>	<b>\$ 16,646</b>	<b>\$ (6,725)</b>	<b>\$ 9,921</b>	<b>\$ 250</b>	<b>\$ 9,671</b>



**MOUNTAINLAND HEAD START, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Note A. General**

The schedule of expenditures of federal awards (SEFA) presents the activity of all federal award programs of Mountainland Head Start, Inc. (the Organization). The Organization reporting entity is defined in Note 1 to the Organization's financial statements. All federal financial awards received directly from federal agencies as well as federal financial awards passed through from other government agencies are included on the schedule.

**Note B. Basis of Accounting**

The accompanying schedule of expenditures of federal awards is presented using the budgetary basis of accounting.

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

**Note C. Adjustment to Budgetary Basis**

The Organization establishes its budget on a basis, which is different from actual activity, which is reported on a generally accepted accounting principle (GAAP) basis. Purchase orders and commitments outstanding at April 30 using grant monies are recorded as current year expenses. In addition, service hours donated by parents are measured and recorded. Accordingly, actual activity is converted to the budgetary basis on the Schedule of Revenues, Expenses, and Changes in Fund Balance - Budget and Actual for comparison purposes.

The following schedule reconciles grant revenues on a GAAP basis to grant revenues on a budgetary basis and to the amount reported on the SEFA for the year ended April 30, 2005:

	<u>PA 20</u>	<u>PA 22</u>	<u>Total</u>
Federal Revenues on GAAP Basis	\$ 58,459	\$ 5,351,571	\$ 5,410,030
Outstanding purchase orders	<u>-</u>	<u>105,526</u>	<u>105,526</u>
Federal Revenues on Budgetary Basis and SEFA	<u>\$ 58,459</u>	<u>\$ 5,457,097</u>	<u>\$ 5,515,556</u>

**MOUNTAINLAND HEAD START, INC.**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Note C. Adjustment to Budgetary Basis (Continued)**

The following schedule reconciles grant expenses on a GAAP basis to grant expenses on a budgetary basis for the year ended April 30, 2005:

	<u>PA 20</u>	<u>PA 22</u>	<u>Total</u>
Expenses on GAAP Basis	\$ 58,459	\$ 6,303,741	\$ 6,362,200
Outstanding purchase orders and prepaid expenses	-	120,423	120,423
Acquisition of fixed assets	-	390,238	390,238
Depreciation expense	-	(285,328)	(285,328)
Contributions - volunteer hours	-	394,511	394,511
Loss on disposal of fixed assets	-	(113,082)	(113,082)
Expenses on Budgetary Basis	<u>\$ 58,459</u>	<u>\$ 6,810,503</u>	<u>\$ 6,868,962</u>

**SINGLE AUDIT REPORTS**

**Year Ended April 30, 2005**



**Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards***

Board of Directors  
Mountainland Head Start, Inc.

We have audited the financial statements of Mountainland Head Start, Inc. (a nonprofit organization) as of and for the year ended April 30, 2005, and have issued our report thereon dated June 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Mountainland Head Start, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mountainland Head Start, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Squire & Company, PC*

June 28, 2005



Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and Internal Control Over  
Compliance in Accordance with OMB Circular A-133

Board of Directors  
Mountainland Head Start, Inc.

**Compliance**

We have audited the compliance of the Mountainland Head Start, Inc. (a nonprofit organization) with the types of compliance described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended April 30, 2005. Mountainland Head Start, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mountainland Head Start, Inc.'s management. Our responsibility is to express an opinion on Mountainland Head Start, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mountainland Head Start, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mountainland Head Start, Inc.'s compliance with those requirements.

In our opinion, Mountainland Head Start, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended April 30, 2005.

**Internal Control Over Compliance**

The management of Mountainland Head Start, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mountainland Head Start, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in

which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Agui & Company, PC*

June 28, 2005

**MOUNTAINLAND HEAD START, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
Year Ended April 30, 2005

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I. Summary of auditor's results:

*Financial Statements:*

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified?      yes   X   no

- Reportable condition(s) identified  
that are not considered to be  
material weaknesses?      yes   X   none reported

Noncompliance material to financial  
statements noted?      yes   X   no

*Federal Awards:*

Internal control over major programs:

- Material weakness(es) identified?      yes   X   no

- Reportable condition(s) identified  
that are not considered to be material  
weakness(es)?      yes   X   none reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are  
required to be reported in accordance  
with section 510(a) of OMB Circular A-133?      yes   X   no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

93.600

Head Start

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee?   X   yes      no

II. Financial statement findings:

No matters were reported.

III. Federal award findings and questioned costs:

No matters were reported.

**MOUNTAINLAND HEAD START, INC.**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
Year Ended April 30, 2005

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No matters were reported in the prior year audit.



**Squire & Company, PC**  
*Certified Public Accountants and Business Consultants*



1329 SOUTH 800 EAST • OREM, UTAH 84097-7700 • (801)225-6900 • FAX (801)226-7739

October 12, 2005

Board of Directors  
Mountainland Head Start, Inc.

We have audited the financial statements of Mountainland Head Start, Inc. for the year ended April 30, 2005, and have issued our report thereon dated June 28, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, and OMB Circular A-133

As stated in our engagement letter dated May 31, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Mountainland Head Start, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Mountainland Head Start, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Mountainland Head Start, Inc.'s compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on Mountainland Head Start, Inc.'s compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Mountainland Head Start, Inc.'s compliance with those requirements.

### Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Mountainland Head Start, Inc. are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2005. We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- depreciation expense,
- allocation of expenses by function, and
- valuation of non-cash contributions.

Management's estimate of the valuation of non-cash contributions is based on what the Organization is currently paying for similar services. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Organization's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Organization, either individually or in the aggregate, indicate matters that could have a significant effect on the Organization's financial reporting process. A copy of adjustments and reclassifications made to prepare the financial statements is attached.

### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation

involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

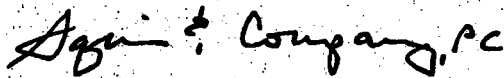
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Audit Committee, Board of Directors, and management of Mountainland Head Start, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,



Squire & Company, PC

Attachments:

- Audit trial balance
- Audit adjustments and reclassifications
- Depreciation schedule